

NATIONAL CREDIT UNION ADMINISTRATION

NCUA News

Board actions – July 20, 2004

2004 NCUA budget declines 3.1 percent at midyear

The NCUA Board approved a revised 2004 operating budget of \$145.3 million, a decrease of 3.09 percent or \$4.6 million based on costs incurred in the first half and projected spending for the remainder of the year.

Actual spending for the first six months of 2004 was \$64.8 million, which is \$9.7 million or 13.1 percent below the projected year-to-date budget of \$74.6 million. Typically, spending is higher during the last half of the year due to travel, training and conferences, consulting and year-end pay adjustments. The majority of the variance is due to existing vacant positions. At June 26, 2004, NCUA had 59 vacancies, or 6.1 percent of staff, which is projected to result in an approximate \$3.2 million decrease in spending for pay and benefits over the year.

Mid-session budget adjustments

New midyear funding requests of \$303,000 will be offset by total de-

creased spending. The original 2004 budget was \$149,927,592.

FCUs may serve as trustees for Health Savings Accounts

The NCUA Board approved final changes to Parts 721 and 724 of the R&Rs enabling federal credit unions to serve as trustees or custodians for member Health Savings Accounts (HSA). The rule implements authority contained in the *Medicare Prescription Drug, Improvement and Modernization Act of 2003*, signed into law last December by President Bush.

Federal credit unions may offer qualified members the opportunity to establish an HSA. To qualify, a member must have a high deductible health plan, which is at least \$1,000 deductible for individuals and \$2,000 deductible for family coverage.

Contributions to an HSA are tax deductible, whether or not the taxpayer

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Upcoming PALS workshop: Ideas to reach new members

Review the agenda and register online for the upcoming free NCUA Partnering and Leadership Successes (PALS) workshop in Honolulu on Oct. 27, the final day of the Credit Union National Association's (CUNA's) Future Forum.

The workshop "New Ideas to Reach New Members" features a wide range of initiatives proven successful in attracting and retaining members, presented by panelists from small and large credit unions serving diverse fields of membership.

The first panel will focus on "Ideas to Get New Members in Your Door," and the second will present "Ideas to Help Members Build Wealth" to help turn new members into loyal, life-long members.

Held at the Hilton Hawaiian Village, site of the Future Forum, the PALS workshop will take place from 1:00-4:30 p.m. on Oct. 27 at the conclusion of the Future Forum. Register for the free PALS workshop at www.ncua.gov, under *Upcoming Events*, and click *Oct. 27, Honolulu*.

2004 mid-session budget adjustments

	Board approved budget	Revised budget needs	Change	Percentage Change
Employee pay	88,519,420	86,270,924	(2,248,496)	-2.54 %
Employee benefits	22,631,933	22,186,296	(445,637)	-1.97%
Travel	13,492,175	13,150,528	(341,647)	-2.53%
Rent/communications/ utilities	4,445,363	4,086,649	(358,714)	-8.07%
Administrative	12,655,451	11,312,751	(1,342,700)	-10.61%
Contracted services	8,183,250	8,292,250	109,000	1.33%
Total	\$149,927,592	\$145,299,398	\$(4,628,194)	-3.09%

New Board Secretary named

Attorney Mary F. Rupp, a 17-year NCUA employee, will become Secretary to the Board when Becky Baker retires at the end of August.

The Board Secretary is responsible for ensuring the agency complies with *Sunshine Act* requirements and for the administrative functions of the Board, which include preparing the Board meeting agenda, preparing and maintaining the



minutes for all official actions taken by the Board, and executing and maintaining all documents adopted by the Board or under its direction.

Rupp holds a B.A. from Newton College of the Sacred Heart and a J.D. from Columbus School of Law. She served as a law clerk for Chief Judge Loren Smith, U.S. Court of Claims, and has been a staff attorney in NCUA's Office of General Counsel since 1987, first in Litigation and then in the Operations Division.

NATIONAL CREDIT UNION ADMINISTRATION NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

JoAnn Johnson, Chairman
Deborah Matz, Board Member

Information about NCUA and its services may be secured by contacting *External Affairs* at 703-518-6330.

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GC opinion letters

The NCUA Office of General Counsel issues opinion letters interpreting agency regulations and policies in response to questions submitted. Summaries of a few recent opinion letters follow. Access all GC opinion letters on the NCUA website at http://www.ncua.gov/RegulationsOpinionsLaws/opinion_letters/opinion_letters.html



04-0507 — Missouri Member Business Loan (MBL) regulation exemption —

Federally insured state-chartered credit unions (FISCUs) may only engage in business lending under the terms of NCUA's MBL regulation or a state member business lending regulation approved by the NCUA Board. State law parity provisions do not provide a legal basis for FISCUs to elect to engage in business lending under some provisions of NCUA's regulation while relying on other provisions of a previously approved state regulation.

A state with an exempt MBL rule has three options available after the recent amendments to NCUA's MBL rule: (1) continue to use the exemption approved by the NCUA Board for the state rule; (2) rescind the current state rule so that FISCUs in the state can use the NCUA MBL rule effective October 2003; or (3) submit a revised rule to NCUA for consideration for a new exemption.

04-0528 — Permissibility of loan participation or purchase of an eligible obligation —

An FCU cannot purchase automobile loans originated by a bank unless the loans are to its members. NCUA regulations generally permit an FCU to purchase loans from any source provided the borrower is a member and the loan is either a type the FCU is empowered to grant or the loan is refinanced by the FCU within 60 days of its purchase. NCUA's loan participation regulation does not apply if the purchase is 100 percent of a loan.

04-0625 — Share insurance coverage for living trust accounts —

Living trust accounts are insured under the revocable trust provisions in NCUA's share insurance regulation. The regulation provides separate insurance of up to \$100,000 per "qualifying" beneficiary — the account owner's spouse, child, grandchild, parent or sibling. If a member designates his son and daughter as beneficiaries on two separate accounts, the beneficiary's interests are aggregated for insurance purposes and each beneficiary's interest is insured up to \$100,000 for total coverage of up to \$200,000 for both accounts. The coverage is separate from individual accounts of the member or the beneficiaries.

04-0702 — Texas MBL regulation —

A state supervisory authority (SSA) that has received an exemption from NCUA's MBL rule cannot use a waiver provision in its general lending rule to grant MBL waivers without approval from the NCUA Board. A SSA may only grant waivers from MBL requirements if the NCUA Board approved the type of waivers permitted and the procedure for authorizing waivers when it granted the state rule exemption.

Former Region II director passes away

Former Region II Director Carl Zysk passed away at age 81 on July 24, 2004, in Harrisburg, Pa.

Mr. Zysk's career began with the Bureau of Federal Credit Unions as an examiner in 1953. He retired in 1980 after serving from 1977 to 1980 as regional director in Harrisburg.

Board actions July 20, 2004

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itemizes other deductions. Income earned on funds in an HSA accrues tax-free, and withdrawals for qualified medical expenses are not taxable. Unused HSA funds may be rolled over and accumulated from year to year, and the account is portable. After retirement, but before eligibility for Medicare, an account owner may use funds in this account to purchase health insurance, including long-term care insurance. Any balance remaining in an HSA when the owner reaches age 65 may be used for any purpose. Upon the death of the account owner, account funds may transfer tax-free to a spouse.

Annual contributions to an HSA in tax year 2004 may be up to the lesser of the deductible amount or \$2,600 for individual coverage or \$5,150 for family coverage. Additional information on HSAs is available on the U.S. Treasury website www.ustreas.gov.

Requirements proposed for mergers and private insurance conversions

The NCUA Board issued a proposal to update and amend Part 708b to establish communication and disclosure requirements to ensure members are fully and properly informed before voting to convert from federal to nonfederal insurance or to terminate federal insurance.

The proposed amendment would also require notice to members whose insurance coverage may be reduced as a result of a merger. It would also permit members to withdraw term accounts without penalty at a credit union that converts from federal to nonfederal insurance. Additionally, the proposal requires certain merging credit unions to analyze the filing requirements of the *Hart-Scott-Rodino Act*.

The proposal was issued with a 60-day comment period.

Proposal issued for mutual savings bank conversions

The NCUA Board issued, with a 60-day comment period, a proposed change to update Part 708a of NCUA's rules regarding conversion of insured credit

unions to mutual savings banks. The amendments include additional disclosure requirements, guidelines regarding the member vote on conversion and requirements that votes be conducted by an independent teller and by secret ballot.

The amendments would require a credit union converting to a mutual savings bank to include a simple disclosure that discusses important aspects of the conversion in any written communication with members. The disclosure would address:

- 1) Ownership and control of the institution;
- 2) Operating expenses effect on rates and services;
- 3) Effects of a subsequent conversion to a stock institution; and
- 4) Costs associated with conversion.

The guidelines for conducting a member vote on conversion in a fair and legal manner would include:

- 1) Understanding the relationship between federal and state law;
- 2) Determining voter eligibility; and
- 3) Holding a special vote.

Student credit unions can participate in CDRLP

The NCUA Board adopted a final rule change to Part 705 permitting student credit unions to participate in the Community Development Revolving Loan Program (CDRLP). The Board noted these low-income institutions provide students with valuable, often unavailable financial services as well as offering a unique opportunity for financial education.

The ability to participate in the CDRLP affords student credit unions the opportunity to apply for a CDRLP loan or technical assistance grant, which may help the credit union prosper and grow.

Share insurance rule amended to cover living trust accounts

The NCUA Board issued final rule, Part 745, revising share insurance to provide coverage of up to \$100,000 for interests of qualifying beneficiaries in accounts established as living trusts, whether or not the interest is subject to a contingency. Before this amendment, beneficial interests subject to a defeating

contingency were not entitled to separate insurance coverage.

Originally issued as an interim final rule effective April 1, 2004, the final rule aligns National Credit Union Share Insurance Fund (NCUSIF) protection with Federal Deposit Insurance Corporation (FDIC) coverage and simplifies the rules for livings trusts, a type of revocable trust.

2nd quarter Share Insurance report

The NCUSIF ended the second quarter of 2004 a 1.24 percent equity ratio based on projected insured shares of \$498 million at June 30, 2004. The NCUSIF equity ratio is expected to be 1.25 percent at yearend based on projected 6 percent share growth during the year. \$1.7 million was added to the provision for loan loss reserve account during June and reserves now total \$87 million. During 2004, net income is projected to be \$27 million and insurance losses are projected to be \$15 million.

Board votes are unanimous unless indicated.

American ideals

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As legislators question credit unions' "societal good" to determine whether credit unions deserve to keep their tax exemption, Matz suggested, "Imagine how powerful it would be to answer this question by demonstrating that:"

- "Credit unions are a great Melting Pot, serving people from all ethnic groups and all income classes in our society."
- "Credit unions are extending America's promise of the Land of Opportunity, by giving most everyone access to credit."
- "And credit unions are helping fulfill the American Dream, even for those in our society who thought affording their own home would never become a reality."

Find the full text of the NAFCU speech at http://www.ncua.gov/news/speeches/speeches_matz.html

Conversations with AMERICA



My Government Listens

Who and What: Chairman JoAnn Johnson will join U.S. Representative Michael Oxley for a forum with Ohio credit unions.

When: Friday, Sept. 10, 2004

Where: Mansfield and Lima, Ohio

Why: Chairman Johnson and Representative Oxley will provide a session regarding identity theft, financial education and health savings accounts.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the National Association of State Credit Union Supervisors 39th Annual Conference & Symposium.

When: Sunday, Sept. 12, 2004

Where: Albuquerque Marriott, N.M.

Why: Chairman Johnson will provide an update on current issues and share her insight into the future direction of NCUA.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov.

Who and What: Chairman JoAnn Johnson will host the NCUA Access Across America Economic Empowerment Summit.

When: Monday, Sept. 13, 2004

Where: Albuquerque Hyatt Regency, N.M.

Why: Chairman Johnson will discuss the important role of America's credit unions in providing economic empowerment.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov.

Who and What: Board Member Debbie Matz will help kick off NCUA's Access Across America Economic Empowerment Summit.

When: Monday, September 13, 2004

Where: Albuquerque Hyatt Regency, N.M.

Why: Board Member Matz will emphasize the value of partnerships in providing needed services such as financial education, affordable mortgages and member business loans.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

Who and What: Board Member Debbie Matz will address the National Association of State Credit Union Supervisors 39th Annual Conference & Symposium.

When: Tuesday, Sept. 14, 2004

Where: Albuquerque Marriott, N.M.

Why: Board Member Matz will focus on ways that federal and state regulators can work together to reduce risks facing the credit union system.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the Management Perspectives Seminar.

When: Saturday, Sept. 18, 2004

Where: Krakow, Poland

Why: Chairman Johnson will provide an update on current issues and share her insight into the future direction of NCUA.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov.

Who and What: Chairman JoAnn Johnson will address the National Association of FCU Congressional Caucus.

When: Monday, Sept. 27, 2004

Where: Grand Hyatt Hotel, Wash., D.C.

Why: Chairman Johnson will address issues affecting federal credit unions.

Contact: Heather Graham at 703 518-6309 or hgraham@ncua.gov.

Who and What: Board Member Debbie Matz will address the National Association of FCU Congressional Caucus.

When: Tuesday, Sept. 28, 2004

Where: Grand Hyatt Hotel, Wash., D.C.

Why: Board Member Matz will discuss issues of importance to federal credit unions as they visit lawmakers and regulators in the national capital area.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

Who and What: Board Member Debbie Matz will participate in a press conference with leaders of Shiloh of Alexandria FCU.

When: Thursday, Sept. 30, 2004

Where: Shiloh Baptist Church, Alex., Va.

Why: As inspiration for small credit unions seeking ways to offer new member services, Board Member Matz will commend leaders of this \$1 million credit union for forming a partnership to enhance member mortgage services.

Contact: Patty Jenkins at 703-518-6318 or pjenkins@ncua.gov.

NCUA partners with Operation HOPE

NCUA and Operation HOPE, a leading provider of financial literacy education and economic empowerment tools and services for the underserved, announced an alliance to provide financial literacy and economic empowerment programs for underserved communities July 21 in Milwaukee, Wis.

"Financial education is a vital element for more Americans from all walks of life to achieve the American dream of financial independence and homeownership," said NCUA Chairman JoAnn Johnson. "Operation HOPE has been successful in many communities where folks otherwise would be left behind. We are pleased to engage Operation HOPE under NCUA's Access Across America economic empowerment initiatives."

"Education is the ultimate poverty eradication tool, and financial literacy is one of the most important issues facing our nation today," said John Bryant, founder, chairman and CEO of Operation

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July 21, 2004, Milwaukee, Wis. — Operation Hope Chairman and CEO John Bryant and NCUA Chairman JoAnn Johnson sign the partnership agreement.

Chairman Johnson supports CURIA

Chairman JoAnn Johnson told the House Financial Services Subcommittee on Financial Institutions and Consumer Credit July 20 that credit unions remain strong and healthy serving nearly 83 million Americans. She thanked Chairman Bachus and the subcommittee members for taking the lead in the 107th and 108th Congress in areas of interest to consumers, financial institutions, credit unions and their members.

The *Financial Institutions Regulatory Relief Act of 2004* is a significant bipartisan achievement that NCUA appreciates and enthusiastically supports, and the introduction of the *Credit Union Regulatory Improvements Act of 2003* (CURIA) addresses some of the most compelling issues discussed today within the credit union industry. Chairman Johnson told the committee.

"It is my strong belief that effective regulation, not excessive regulation, should be the underlying principle supporting NCUA's critical mission of ensuring the safety and soundness of federally insured credit unions," Johnson said.

CURIA currently contains needed statutory changes that will directly affect federal credit union operations, including establishing a risk-based system for prompt corrective action (PCA), raising the cap on member business lending (MBL) to 20 percent of total assets, and increasing the minimum MBL threshold to \$100,000.

Chairman Johnson recommended several amendments to the *Federal Credit Union Act*. One would enable merged credit unions to reflect their joint retained earnings as post merger net worth in light of a pending Financial Accounting Standards Board requirement on business combinations. Another amendment would restore NCUA's authority to examine third party vendors that provide services to federally insured credit unions. This would restore examination authority that expired in 2001 and provide NCUA jurisdiction comparable to other federal financial regulators involved with third party vendors.

The chairman's statement is online at <http://www.ncua.gov/news/speeches/2004/Johnson0720Testimony.pdf>

Matz links "American ideals" to credit union success

NCUA Board Member Debbie Matz encouraged credit unions to uphold "American ideals" in her keynote speech to the National Association of Federal Credit Unions (NAFCU) Annual Conference in Vancouver, Canada, July 16. The ideals include America as a Melting Pot, a Land of Opportunity, and a place where people from all walks of life strive for the American Dream of homeownership.

"As long as credit unions stay true to the American ideals embedded in their heritage," Matz emphasized, "they can reach new markets with millions of new members and overcome many of the most important challenges they face today."

Matz explained how specifics of adhering to ideals can help overcome slowing membership growth, falling mortgage market share and threats of taxation:

- **Melting Pot** – "One out of every three Americans now identify themselves as Latino, African-American, or Asian. In little more than a decade, there will be no ethnic majority in America. This has far-reaching implications for credit unions, which have seen membership growth decline to

under 2 percent. When you put programs in place to embrace all the different cultures in your community, you can make your credit union a living example of the great Melting Pot."

- **Land of Opportunity** – "For credit unions, the Land of Opportunity may be America's 25,000 underserved areas, with nearly 100 million potential members. Adding an underserved area is a tremendous opportunity to grow your membership – as well as your bottom line."
- **American Dream** – "Credit unions' share of the mortgage market is down from 2.5 percent a year ago to 2.3 percent today. The challenge is to offer affordable mortgages to make the American dream a reality for more members. Look to the people who don't yet own their homes. By providing mortgages with low down payments and reduced fees, credit unions can help minorities and moderate-income families achieve the American dream."

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June 18, 2004, Alexandria, Va. — NCUA Board Member Debbie Matz (first row, fifth from left) met with a delegation from the West Virginia CU League during the league's "Hike the Hill" visit to the national capital area. Two top officials from NCUA's Region II office joined the meeting: Joy Lee (left), associate regional director for Programs, and Scott Hunt (right), associate regional director for Operations. A special guest was Selena Ankrom (center), daughter of the league's Administrative Assistant Debbie Ankrom (standing behind her daughter).



New Mexico Economic Summit

The second Access Across America Economic Empowerment Summit will be held at the Hyatt Regency in Albuquerque, New Mexico, Monday, September 13 beginning at 8:30 a.m.

Hosted by NCUA, this free summit will focus on the federal resources available to credit unions. Credit unions in New Mexico, Arizona, Colorado, Oklahoma, and Texas are invited to participate.

"The summit will provide an overview of resources available to credit unions that may assist in their outreach efforts to promote financial education, homeownership and member business lending," said NCUA Chairman Johnson. "NCUA looks forward to joining with credit union officials and volunteers in the Southwest who are making a difference in the lives of their members and empowering families toward the American Dream of financial self-sufficiency."

The summit will feature panels of government agencies and potential non-profit partners addressing key topics, including:

- Financial education
- Homeownership
- Member business lending and
- Partnership opportunities for credit unions

Short seminars on effective grant writing and serving underserved areas will also be offered.

Additional information and a registration form may be found at www.ncua.gov, e-mail AccessAcrossAmerica@ncua.gov; or call 703-518-6610.

Operation HOPE

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HOPE. "The commitment of the NCUA will ensure that we reach our goal of educating children about how to take control of their financial futures. When kids know better, they do better, and that's what "Banking on Our Future" is all about."

Under this partnership, NCUA and Operation HOPE will work to develop and promote financial literacy programs, providing financial education to youth and adults in underserved communities. The agreement will promote Operation HOPE's "Banking on Our Future" financial literacy program and economic education services as well as NCUA's Financial Education and Access Across America Initiative, which works to aid communities with the resources and technical assistance to provide financial services, affordable housing and economic development opportunities.

For more information on Operation Hope visit <http://www.operationhope.org>.



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